

KANSAS MEDICAID STATE PLAN

Attachment 4.19D

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Methods and Standards for Establishing Payment Rates
Skilled Nursing and Intermediate Care Facility Rates
(NF's and NF's-MH)

Narrative Explanation of Nursing Facility Reimbursement Formula

Due to the implementation of the property fee, the calculation methodology of the Total Property cost limit has been revised such that changes in ownership (and resulting increases in ownership costs) after July 18, 1984 are not recognized in setting new limits. The change in methodology essentially holds the ownership cost portion of the property limit, effective October 1, 1984, constant. The revised methodology only allows for relative changes in the plant operating costs to influence to total Property cost limit.

The calculation of the Total Property cost limit is as follows:

Plant Operating Per Diem Limit from Current Data Base
Minus: Plant Operating Per Diem Limit from Prior Data Base
Equal: Incremental Change in Total Plant Operating Limit
Add: Total Property Cost Limit from Prior Limitation Period
Equal: Total Property Cost Limit for New Limitation Period

The skilled nursing facilities and intermediate care facilities became nursing facilities on October 1, 1990. The Property cost limit, using the incremental change in Plant Operating costs, was based on the Property cost limit from the October 1, 1984 data base for skilled facilities. The incremental changes in the Plant Operating costs and the subsequent change in Property cost limits are now determined from the combined Nursing Facility data base.

The property fee resulted in a calculation of a provider specific plant operating limit. The Total Property limit is reduced, on a provider specific basis, by the amount of the property allowance included in the property fee. In this manner, the non-ownership costs are limited by a cost center limit that excludes the ownership cost portion of the Medicaid rate, or the property allowance. The following is the calculation of the Plant Operating Limit:

Total Property Cost Limit for Limitation Period
Minus: Property Allowance Included in Property Fee
Equal: Plant Operating Cost Center Limit for Limitation Period.

It should be noted that the value factor component of the property fee should not be reduced from the Total Property cost limit to determine the Plant Operating Cost Center Limit. The property fee is explained in greater detail in the following section of this exhibit.

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Case Mix Adjustment Effective January 1, 1994:

The upper payment limit for the Health Care cost center limit will be determined based on the case mix adjustment. This adjustment is explained in detail in the Case Mix Payment System section of this narrative.

REAL AND PERSONAL PROPERTY FEE

The real and personal property fee (property fee) was implemented, effective January 1, 1985, pursuant to Kansas Administrative Regulation 30-10-25. It was implemented as a response to the Deficit Reduction Act of 1984 regarding re-valuation of assets due to a change in ownership. The property fee satisfies this requirement in that it is the capital reimbursement portion of the Medicaid rate and does not change due solely to a change in ownership. The property fee is facility specific and is in lieu of all depreciation, mortgage interest, lease and amortization of lease expense. The actual ownership costs used to develop the property fee were from the latest cost report for each provider that the agency had processed through July, 1984.

The two components of the property fee are the property allowance and the property value factor. An explanation of each of these follows.

Property Allowance: The four line items of ownership cost (mortgage interest, depreciation, lease and amortization of lease expenses) were added together and divided by resident days to arrive at the ownership cost per diem for each provider. The 85% minimum occupancy rule was imposed on all providers who had been in operation for over 12 months. The ownership per diem cost was reduced proportionately for each provider who had total property costs in excess of the 85th percentile limit on the Property Cost Center Limit. This adjustment to the ownership per diem cost was based on the ratio of ownership costs to total property costs, multiplied by the property costs in excess of the cost center limit. The ownership per diem cost minus this adjustment (if any) resulted in the property allowance.

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Property Value Factor: The property allowances for all providers were arrayed by level of care and percentiles established. These percentiles became the basis for establishing the property value factor. The five different groupings developed from each array are as follows:

<u>Group #</u>	<u>Percentile Ranking</u>	<u>Add-On Percent</u>
1	-0- through 25th Percentile	45%
2	26th through 50th Percentile	15%
3	51st through 75th Percentile	7.5%
4	76th through 85th Percentile	5%
5	86th through 100th Percentile	0%

Once the percentile groups were established, a weighted average property allowance was calculated for each group. This average property allowance was then multiplied by the add-on percentage to arrive at the property value factor for each group. This add-on percentage is inversely related to the percentile ranking. That is, the lower the percentile ranking, the higher the add-on percentage. The property value factor for each percentile group was then assigned to each provider within that group.

There are two value factor arrays. One array is the Medicare skilled nursing facilities. The other is for nursing facilities which are not certified as Medicare skilled facilities. The value factor is determined based on the classification of the nursing facility and by using the applicable array.

The applicable array applies to the certification of the facility at the time the property fee is established. The value factor does not change with a change in certification. However, if a property fee changes due to a "rebasing", then the value factor is based on the array for which the facility is certified at the time the rebasing is effective.

There are two provisions for changing the property fee. One is for a "rebasing" when capital expenditure thresholds are met (\$25,000 for homes under 51 beds and \$50,000 for homes over 50 beds). The original property allowance remains constant but the additional factor for the rebasing is added. The property fee rebasing is explained in greater detail in Exhibit A-14 (K.A.R. 30-10-25). The other provision is that an inflation factor may be applied to the property fee on an annual basis.

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INCENTIVE FACTOR

The incentive factor is a per diem add-on ranging from zero to fifty cents. It is based on the per diem cost of the Administration cost center and the Plant Operating cost center less the real and personal property taxes expense line. The per diem allowance for these two cost centers less property taxes is determined before the owner/related party/administrator/co-administrator limitation is applied.

The incentive is designed to encourage economy and efficiency in the administrative and plant operating cost areas. Property taxes were excluded since the provider has little control of the cost. There is an inverse relationship between the incentive factor and the per diem cost used to determine it. The higher the per diem cost, the lower the incentive factor.

The Schedule E is an array of the per diem costs that are used to determine the incentive factor. The schedule includes the costs from the most recent historical cost report for all active providers. No projected cost reports are included. The per diem costs are based on the 85% occupancy rule. The costs are not adjusted for inflation.

The Schedule E summarizes all expense lines from the Administration cost center and the Plant Operating cost center, less property taxes. The ownership costs are excluded from the array so that both older facilities (with relatively lower ownership costs) and newer facilities (with relatively higher ownership costs) can benefit from the incentive factor through efficient operations. The Room and Board and Health Care cost centers are excluded from the incentive factor calculation so that providers are not rewarded for cost efficient operations with regard to costs that may jeopardize the direct care of the residents.

The total per diem costs for administration and plant operating, less property taxes, are arrayed and percentiles established. These percentiles then become the basis for establishing the per diem cost ranges used to determine each providers efficiency factor, consistent with agency policy. The ranges are defined as follows:

<u>Providers Percentile Ranking</u>	<u>Incentive Factor Per Diem</u>
-0- to 30th Percentile	\$.50
31st to 55th Percentile	.40
56th to 75th Percentile	.30
76th to 100th Percentile	-0-

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INFLATION FACTORS

Inflation will be applied to the allowable reported costs from the calendar year end cost reports for rates effective July 1st. The inflation will be based on the Data Resources, Inc. National Skilled Nursing Market Basket Index (DRI Index). The inflation will be applied from the midpoint of the cost report period to the midpoint of the payment limitation period (December 31st). This annual percentage estimate is used consistently throughout the limitation period.

The DRI Indexes listed in the latest available quarterly publication will be used to determine the inflation tables for the payment schedules processed during the payment limitation period. This will require the use of forecasted factors in the inflation table. The inflation tables will not be revised until the next payment limitation period.

For historic cost report periods ending other than the last month in a quarter, the inflation factor to be used in the calculation will be the factor for the quarter in which the cost reporting period ends. For example, a cost report period ended August 31st, will receive inflation based on the calculation using the September, third quarter, DRI Index forecast. This approach is being used instead of trying to convert a quarterly index into monthly factors.

The table "Inflation For Report Year End Prior To July 1" (Exhibit C-2, page 1) is applied in determining rates with an effective date of July 1. The table "Inflation For Report Year Ends After July 1" (Exhibit C-2, page 2) is applied in determining rates for non calendar year historic cost reports with rate effective date other than July 1.

The inflation factor is applied to all costs except the following:

- 1) Administrator and Co-Administrator Salaries
- 2) Owner/Related Party Compensation
- 3) Interest Expense
- 4) Real and Personal Property Taxes

RATE EFFECTIVE DATE

Rate effective dates are determined in accordance with Exhibit A-7 (K.A.R. 30-10-19). The rate may be revised for an add-on reimbursement factor (i.e., rebased property fee or 24 hour nursing), desk review adjustment or field audit adjustment.

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Page 1INFLATION FOR REPORT YEAR ENDS PRIOR TO 7/1/99
EFFECTIVE 07/01/99

REPORT YEAR END (RYE)	MIDPOINT OF RYE	MIDPOINT OF RYE INDEX	MIDPOINT OF RATE PERIOD	MIDPOINT OF RATE PERIOD INDEX	HISTORICAL INFLATION FACTOR % *
12-96	06-96	1.123	12-99	1.254	11.665%
12-97	06-97	1.156	12-99	1.254	8.478%
01-98	07-97	1.168	12-99	1.254	7.363%
02-98	08-97	1.168	12-99	1.254	7.363%
03-98	09-97	1.168	12-99	1.254	7.363%
04-98	10-97	1.179	12-99	1.254	6.361%
05-98	11-97	1.179	12-99	1.254	6.361%
06-98	12-97	1.179	12-99	1.254	6.361%
07-98	01-98	1.189	12-99	1.254	5.467%
08-98	02-98	1.189	12-99	1.254	5.467%
09-98	03-98	1.189	12-99	1.254	5.467%
10-98	04-98	1.199	12-99	1.254	4.587%
11-98	05-98	1.199	12-99	1.254	4.587%
12-98	06-98	1.199	12-99	1.254	4.587%
01-99	07-98	1.209	12-99	1.254	3.722%
02-99	08-98	1.209	12-99	1.254	3.722%
03-99	09-98	1.209	12-99	1.254	3.722%
04-99	10-98	1.216	12-99	1.254	3.125%
05-99	11-98	1.216	12-99	1.254	3.125%
06-99	12-98	1.216	12-99	1.254	3.125%

* = (Midpoint of rate period index / Midpoint of rye index) -1

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INFLATION FOR REPORT YEAR ENDS AFTER 7/1/99 EFFECTIVE 07/01/99

<u>RYE</u>	<u>MIDPOINT OF RYE</u>	<u># OF MONTHS FROM MIDPOINT TO 07-01-00</u>	<u>RED</u>	<u># OF MONTHS FROM RED TO 07-01-00</u>	<u>INFLATION FACTOR</u>
07-31-99	01-31-99	17	08-01-99	11	2.951%
08-31-99	02-28-99	16	09-01-99	10	2.822%
09-30-99	03-31-99	15	10-01-99	9	2.694%
10-31-99	04-30-99	14	11-01-99	8	2.566%
11-30-99	05-31-99	13	12-01-99	7	2.438%
12-31-99	06-30-99	12	01-01-00	6	2.309%
01-31-00	07-31-99	11	02-01-00	5	2.181%
02-29-00	08-31-99	10	03-01-00	4	2.053%
03-31-00	09-30-99	9	04-01-00	3	1.924%
04-30-00	10-31-99	8	05-01-00	2	1.796%
05-31-00	11-30-99	7	06-01-00	1	1.668%

X = NUMBER OF MONTHS FROM MIDPOINT OF RYE TO 07/01/00

Y = NUMBER OF MONTHS FROM RED TO 07/01/00

FORMULA = $0.2566\% \cdot [X - (Y/2)]$

ANNUAL RATE OF INFLATION = 3.079%

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COST CENTER LIMITATIONS EFFECTIVE 07/01/99

<u>COST CENTER</u>	<u>UPPER LIMIT</u>
Administration	\$12.70
Property	\$11.67
Room & Board	\$21.98
Health Care	\$61.01

* = Base limit for a facility average case mix index of 1.00

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INCENTIVE FACTORS EFFECTIVE 07/01/99

Level	Percentile Range		Per Patient Day Range		Incentive Factor
	Low	High	Low	High	
NF	-0-	30th	\$ -0-	14.56	\$.50
	31st	55th	14.57	17.45	0.40
	56th	75th	17.46	19.35	0.30
	76th	100th	19.36	above	-0-

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OWNER/RELATED PARTY SALARY LIMITATIONS
ALL LEVELS OF CARE
EFFECTIVE 07/01/99

Job Classification	Salary Range(**)	Bed Size: 0-59	60-120	121+	0-99	100	Any Size
Administrator (*)	23 28 31	30,098					
Co-Administrator (*)	19 22 24	24,773	38,418 28,704	44,470 31,595			
Accountant (II)	24						31,595
Attorney (II)	31						44,470
Bookkeeper	15						20,384
Secretary (II)	15						20,384
Gen. Maint. & Repair Tech II	17						22,485
Physical Plant Supervisor I (1 or 2 Facilities)	23						30,098
Physical Plant Supervisor II (3 or More Facilities)	25						33,197
Cook	11						16,765
Food Service Supervisor II	17						22,485
Housekeeper/Laundry Worker	9						15,205
Director of Nursing (RN III *)	25				33,197		
Director of Nursing (RN IV *)	28					38,418	
Registered Nurse (RN II *)	22						28,704
Licensed Practical Nurse (LPN *)	18						23,587
LPN Supervisor (*)	20						26,021
Health Care Assistant (Nurse Aides)	12						17,618
Mental Health Aide	12						17,618
Physical Therapist II (*)	27						36,566
Physical Therapist Aide	13						18,512
Occupational Therapist II (*)	26						34,861
Speech Path./Audio. I. (*)	26						34,861
Activity Therapy Tech.	14						19,406
Activity Therapist I (*)	22						28,704
Social Worker (*)	22						28,704
Medical Records Administrator	24						31,595
Medical Records Technician	19						24,773
Central Office (3 or More Facilities)							
Chief Executive Officer	36						56,763
Chief Operating Officer	34						51,522
All Other Chief Officers	31						44,470

(*) License/Registration/Certificate Requirement

(**) Step 5 of the salary range is used, which represents the State Civil Service market rate.

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